DB morning note with your coffee

Date: 22 October 2026 at 08:07:35 BST

Good Morning,

AI Concerns, Higher Oil and French Fiscal Risks:

- Markets continue to grapple with three interconnected themes: renewed concerns about AI-driven growth expectations, rising energy prices, and persistent fiscal stress in Europe.
- Geopolitical tensions in the Middle East intensified again, with reports of potential future US-Israeli strikes on Iran and continued attacks on Saudi infrastructure supporting another rise in oil prices.
- Hopes for a near-term diplomatic breakthrough with Iran faded after officials reiterated deep mistrust and signalled little expectation of meaningful progress.
- The rise in energy prices is reinforcing inflation concerns, particularly in Europe, where higher oil and gas prices are feeding through into inflation expectations.
- Fiscal concerns in France remain a major focus, with French government borrowing costs reaching levels not seen since 2002 and sovereign spreads widening further across Europe.
- Investors are increasingly balancing resilient equity performance against growing geopolitical, inflation and sovereign-risk pressures.

Markets:

- US equities advanced, with the S&P 500 (+0.58%) closing within 1% of its record high, supported by strength in technology shares and AI-related names.
- European equities also moved higher, with the STOXX 600 (+0.92%) posting solid gains led by the technology sector.
- French sovereign bonds remained under pressure, pushing the France-Germany 10yr spread to its widest level since 2011.
- Brent crude oil traded at a five-month high and continued rising overnight, while European natural gas futures gained +2.78%.
- US Treasury yields rose modestly during the session, although a subsequent overnight risk-off move saw yields retrace lower.
- Inflation expectations moved higher in Europe, with the 1yr Euro inflation swap reaching its highest level since May.

G10 Spot Views:

- EUR/USD: Despite wider French spreads, higher oil prices and weaker equities, EUR/USD has remained resilient. The rejection of the recent downside break suggests scope for a gradual move higher from current levels, although a sharp rally back towards previous highs is not the base case.
- USD/JPY: A preferred expression of the current risk-off environment. The pair has been consolidating around 158, with downside viewed favourably given supportive signals from both Japanese and US authorities around excessive yen weakness.
- EUR/CHF: The cross has not weakened as much as broader European stresses might imply. Given elevated French fiscal concerns, there remains potential for EUR/CHF to move lower and catch up with the broader risk backdrop.
- EUR/GBP: Sterling strength has been a dominant theme, supported by UK-specific factors and relative resilience in UK equities. However, the pace of EUR/GBP downside now looks stretched, with risks becoming more balanced from current levels.
- GBP (broader): Sterling continues to benefit from investor demand for more defensive equity exposure, with the FTSE's composition providing some insulation from the AI-driven volatility affecting other markets.

Overnight Commentary:

- Risk aversion intensified during APAC following Tesla’s reduced capital-expenditure guidance and reports that the US and Israel were preparing plans for further strikes on Iran.

- S&P futures declined while the KOSPI again proved particularly sensitive to the risk-off environment. Similar to last week's risk-off episode, Treasuries attracted safe-haven demand, with the US 10-year yield moving lower.
- The FX response was mixed, with AUD and NZD underperforming while JPY and CHF strengthened against the USD. EUR also gained, while GBP was little changed.
- Oil rose on heightened Middle East escalation risks, whilst gold and silver declined sharply.
- New Zealand's Q3 headline CPI undershot consensus, although measures of core inflation firmed.
- October RBNZ hike pricing increased modestly, while expectations for tightening further out eased, and AUD/NZD reversed earlier gains to finish near the middle of its session range.

Headlines:

- US TROOPS, DIPLOMATS EVACUATING MIDDLE EAST POSTS: NBC
- HEGSETH MET NETANYAHU THIS WEEK TO DISCUSS NEW IRAN STRIKES: NYT
- US, ISRAEL CRAFT PLAN FOR IRAN STRIKES AFTER ELECTION: NYT
- TESLA CUTS 2026 CAPEX TARGET TO $20B, HAD SEEN MORE THAN $25B

FX Blog - Underappreciated impacts of the NZ election:

- One of the reasons we have maintained a bearish NZD view is due to the finely balanced NZ national election (7th Nov) and its potential implications for fiscal, monetary, and (capital, wealth and business) taxation
- NZD's high beta to French developments of late suggests markets have sympathy for our views, but given where NZD is trading vs our fair value estimates and market commentary, we sense the potential impact is broadly underappreciated.
- One of the key channels of impact, in our eyes is an RBNZ change to dual mandate.
- We think RBNZ hike pricing could moderate by as much as 50bps if a Labour-led coalition wins.
- The FX impact stemming from the above dual-mandate shift alone could weaken NZD/USD by ~1.6%



Overnight Data Releases:

- South Korea – CPI MoM 0.30% vs est. 0.40% (prior 0.20%) / CPI YoY 2.90% vs est. 2.90% (prior 3.10%) / Core CPI YoY 2.80% vs est. 2.80% (prior 3.40)
- Japan – Tokyo CPI YoY 2.70% vs est. 2.50% (prior 1.90%) / Tokyo CPI ex Fresh Food YoY 2.70% vs est. 2.30% (prior 1.80%) / Tokyo CPI ex Fresh Food & Energy YoY 3.00% vs est. 2.50% (prior 2.00%) / Jobless Rate 2.50% vs est. 2.40% (prior 2.40%) / Monetary Base YoY -15.20% vs prior -15.70% / Monetary Base ¥535.4tn vs prior ¥543.8tn

Day Ahead:

Looking at the day ahead now, data releases include the US weekly initial jobless claims, and the European Commission's preliminary consumer confidence indicator for the Euro Area in October. Otherwise from central banks, we'll hear from the ECB's Kocher, Panetta, Pereira and Escriva

Countries	BST	Data/ events	Survey	Previous	Revised	Bloomberg Ticker
TU	08:00	Consumer Confidence (Oct)		91.9		TUCDCNF2 Index
MA	08:00	Foreign Reserves		131.8b		MAALGFE Index
PD	08:30	Retail Sales Real (Sep)		-0.3%(3.8%)		PORLMOM Index(PORLYOY Ir
PD	08:30	Retail Sales (Sep)		(6.4%)		(PORSYOY Index)
CHE	08:30	SNB Publishes Summary of Sept 24 Rate Decision				

HK	09:30	CPI Composite (Sep)		(1.7%)	(HKCPIY Index)
HK	09:30	Unemployment Rate 3Mths (Sep)		3.8%	HKUERATE Index
EMU	10:30	ECB's Kocher Speaks in Vienna			
GBR	11:00	CBI Business Optimism (Oct)		-36	ITSR1B Index
GBR	11:00	CBI Trends Selling Prices (Oct)		12	MTEF4C Index
GBR	11:00	CBI Trends Total Orders (Oct)		-9	MTEF1C Index
IS	11:00	Manufacturing Production (Aug)		-0.2%	ISSIMOM Index
TU	12:00	One-Week Repo Rate	36.0%	37.0%	TUBR1WRA Index
TU	12:30	Foreigners Net Stock Invest			TUPYUK3 Index
TU	12:30	Net Change in Non-Resident Bond Holdings			TUPYUM8 Index
MX	13:00	Bi-Weekly Core CPI		0.0%	MXBWCORE Index
MX	13:00	Bi-Weekly Core CPI		(3.7%)	(MXBWCORY Index)
MX	13:00	Bi-Weekly CPI		0.1%	MXBWMOM Index
MX	13:00	Bi-Weekly CPI		(3.5%)	(MXBWYOY Index)
CAN	13:00	CFIB Business Barometer (Oct)		47.9	CFIBCANA Index
PD	13:00	Money Supply M3 (Sep)		0.8%(11.3%)	POM3LMOM Index(POM3LYO
MX	13:00	Unemployment Rate (Sep)		3.0%	MXUERATE Index
USA	13:30	Continuing Claims			INJCSP Index
CAN	13:30	Industrial Product Price (Sep)		1.3%	CAIPMOM Index
USA	13:30	Initial Claims 4-Wk Moving Avg			INJCJC4 Index
USA	13:30	Initial Jobless Claims			INJCJC Index
CAN	13:30	Raw Materials Price Index (Sep)		3.1%	CARAMOM Index
RU	14:00	Gold and Forex Reserve			RUREFEG Index
SWE	14:00	Riksbank's Jansson Speaks in Stockholm			
EMU	15:00	Consumer Confidence (Oct P)		-16.5	EUCCEMU Index
ITA	15:00	ECB's Panetta Speaks in Turin			

USA	15:00	Leading Index (Sep)	-0.1%	LEI CHNG Index
ITA	15:15	ECB's Panetta Speaks in Turin		
USA	16:00	Kas City Fed Manf Activity (Oct)	14	KCLSSACI Index

Kind Regards,

Charles Donaldson

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Charles Donaldson
FX Sales | Institutional Client Group

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